

Message Text

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ACTION EB-08

INFO OCT-01 EA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 DOE-11 H-01 INR-07 INT-05 L-03
NSAE-00 NSC-05 OMB-01 PM-05 USIA-06 OES-07 SP-02
SS-15 STR-06 TRSE-00 ACDA-12 XMB-02 OPIC-03 FRB-03
PRS-01 /122 W

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R 110540Z JAN 78
FM AMEMBASSY BANGKOK
TO SECSTATE WASHDC 7900
INFO AMCONSUL HONG KONG
AMEMBASSY KUALA LUMPUR
AMEMBASSY SINGAPORE
CINCPAC HONOLULU HI

C O N F I D E N T I A L SECTION 1 OF 2 BANGKOK 01032

CINCPAC ALSO FOR POLAD

E.O. 11652: GDS
TAGS: ENRG, TH
SUBJECT: STATUS OF NATURAL GAS DEVELOPMENT: PROGRESS AND PROBLEMS

REF: BANGKOK 23180 77

1. THE RTG HEADS INTO THE NEW YEAR LEAVING BEHIND A REASONABLE
IF NOT OVERWHELMING TRACK RECORD IN FOSTERING DEVELOPMENT OF
THE NATURAL GAS DEPOSITS IN THE GULF OF THAILAND IN 1977.
HOPEFULLY, THE PACE WILL SOON BE STEPPED UP. NATURAL GAS
ORGANIZATION OF THAILAND (NGOT) OFFICIALS BELIEVE THE CABINET
WILL IN FEBRUARY APPROVE ONE OF FIVE BANKS (AMONG THEM CHASE,
MORGAN, AND MANUFACTURERS HANOVER) AS THE FINANCIAL CONSUL-
TANT TO THE NGOT AND IN MARCH ENDORSE ONE OF SIX APPLICANTS
(OF WHOM THREE ARE U.S. FIRMS) TO CARRY OUT DESIGN AND
ENGINEERING WORK TO BRING THE PROJECT TO THE CONSTRUCTION
STAGE. THE FIRM CHOSEN FOR THIS WORK WILL, AT THE SUGGESTION
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OF THE WORLD BANK, BE EXCLUDED FROM BIDDING ON THE CONSTRUC-
TION CONTRACT, WHICH MAY RUN AS HIGH AS \$400 MILLION.

2. THE KEY TO PROGRESS ON THE PROJECT REMAINS AGREEMENT
ON A PRICE STRUCTURE FOR THE GAS. TO DATE, THE RTG AND THE
OIL COMPANIES REMAIN FAR APART--THE NGOT HAS OFFERED
U.S. 50 CENTS PER MILLION CUBIC FEET DELIVERED AT THE

WELL HEAD, AND UNION OIL HAS PROPOSED A MINIMUM OF U.S. \$1.50 PER MILLION CUBIC FEET. (TEXAS-PACIFIC IN SEPARATE TALKS WITH THE NGOT PROPOSED \$2.55.) OIL COMPANY OFFICIALS HAVE CONSISTENTLY COMPLAINED THAT THE BRITISH GAS CORPORATION (WHICH DESPITE SERVING AS CONSULTANT ON PRICING TO THE NGOT IS ALSO SEEKING THE PIPELINE CONSTRUCTION CONTRACT) HAS CONSISTENTLY AND DELIBERATELY PRODUCED VERY LOW AND MISLEADING ESTIMATES OF ANTICIPATED DEVELOPMENT AND PRODUCTION COSTS WHICH UNION AND TEXAS-PACIFIC (T-P) WILL HAVE TO BEAR IF THE PROJECT GOES FORWARD. THE COMPANIES INSIST THE GAS PRICES THEY HAVE PROPOSED REFLECT REALISTIC INVESTMENT COSTS. IN THESE CIRCUMSTANCES, THE NGOT COMMISSIONED, AND THIS WEEK RECEIVED THE RESULTS OF, A STUDY BY DELGOLYER AND MACNAUGHTON OF DALLAS, TEXAS, ON ESTIMATED PRODUCTION INVESTMENT COSTS IN THE GULF. NGOT OFFICIALS HAVE, HOWEVER, DECLINED TO COMMENT TO EMBOFFS ON THE CONCLUSIONS. INSTEAD, THEY HAVE ASKED UNION OIL FOR ADDITIONAL INFORMATION AND HOPE TO RESUME PRICE NEGOTIATIONS LATER THIS MONTH. ALSO, IT IS LIKELY A T-P TEAM WILL RETURN TO BANGKOK FOR FURTHER PRICE TALKS PRIOR TO THE END OF THE MONTH. FORTUNATELY, THE WORLD BANK SEEMS TO HAVE PROVIDED AN INCENTIVE TO THE NGOT TO REACH A DECISION: THE BANK'S OFFER TO LOAN THE NGOT \$4.6 MILLION FOR DESIGN AND ENGINEERING WORK IS, ACCORDING TO NGOT OFFICIALS, CONTINGENT ON PRIOR AGREEMENT ON THE PRICE ISSUE.

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3. WITH REGARD TO WORK ALREADY COMPLETED OR UNDERWAY, A BRITISH FIRM IS CONDUCTING A MARINE SURVEY OF THE PIPELINE ROUTE AND A THAI FIRM IS SURVEYING THE LAND ROUTE; THE DATA COLLECTED BY THESE FIRMS WILL BE EVALUATED BY PIPELINE TECHNOLOGISTS, OF HOUSTON, TEXAS, RETAINED AS A CONSULTANT BY THE NGOT. (THIS FIRM IS ALSO SEEKING THE ENGINEERING AND DESIGN CONTRACT.) IN ADDITION, DEGOLYER AND MACNAUGHTON EXPERTS, RETAINED BY THE NGOT TO CARRY OUT A RESERVOIR STUDY, HAVE REACHED A TENTATIVE ESTIMATE THAT THERE MAY BE 2.2 TRILLION CUBIC FEET OF GAS IN THE UNION OIL FIELDS AND 4.5 TRILLION IN THE TEXAS-PACIFIC FIELDS. ADDITIONAL DRILLING WILL BE REQUIRED TO CONFIRM AND DELINEATE THESE FIELDS.

4. T-P OFFICIALS ARE VERY OPTIMISTIC ABOUT THEIR DISCOVERIES AND PLAN TO SPUD ANOTHER EXPLORATORY WELL, WHICH IS OBLIGATORY UNDER THE TERMS OF THE CONCESSION, IN EITHER BLOCK 15 OR BLOCK 16 LATER THIS MONTH, DEPENDING ON AVAILABILITY OF THE DRILL SHIP. THEY INSIST THAT THE GAS AND CONDENSATE DISCOVERY IN BLOCK 16 (SIX MILES DISTANT FROM TWO PREVIOUS DISCOVERIES) LAST NOVEMBER "IS THE

BEST IN THE GULF," AND ALLEGE THAT THE COMPANY IS PREPARED TO COMMIT AT LEAST \$50 MILLION FOR DEVELOPMENT WORK IMMEDIATELY IF AND WHEN A GAS CONTRACT PRICE IS SIGNED. UNION OIL OFFICIALS ARE LESS FORTHRIGHT ABOUT DISCOVERIES AND DEVELOPMENT PLANS, BUT APPEAR EQUALLY CONFIDENT ABOUT EXISTENCE OF THE GAS. THEY TEND TO BE MOROSE ABOUT THE PROSPECTS FOR REACHING AGREEMENT ON A GAS PRICE WITH THE NGOT SOON. AMOCO, WHICH AGAIN STRUCK GAS AND CONDENSATE IN BLOCK 5 (145 KILOMETERS SOUTHEAST OF SATTAHIP) IN DECEMBER, HAS NOT PARTICIPATED IN THE PRICE TALKS.

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5. UNLESS RESOLVED IN THE MEANTIME, THE GAS PRICE ISSUE MAY TURN INTO A SERIOUS CONFRONTATION ON APRIL 22, THE DATE THAT UNION, T-P, AND AMOCO MUST, BY LAW, (1) RELINQUISH 25 PERCENT OF EACH CONCESSION AREA PRESENTLY HELD, AND (2) HAVE RIGHTS IN THE REMAINING CONCESSION AREAS RENEWED UNTIL 1982. RELINQUISHMENT DOES NOT POSE A PROBLEM BUT, ALTHOUGH EACH FIRM HAS APPLIED FOR RENEWAL OF ITS CONCESSIONS, NONE APPEARS PREPARED TO UNDERTAKE AN EXTENDED AND EXPENSIVE EXPLORATION OBLIGATION, WHICH THE LAW REQUIRES, UNLESS THE FIRMS HAVE IN HAND FIRM GAS PRICE CONTRACTS WITH THE NGOT. THE DEPARTMENT OF MINERAL RESOURCES HAS ALREADY REJECTED PROPOSALS BY UNION AND T-P FOR WORK PROGRAMS THAT WOULD MAKE THE SPUDDING OF ADDITIONAL WELLS OPTIONAL RATHER THAN OBLIGATORY UNDER RENEWED CONCESSION AGREEMENTS.

6. UNFORTUNATELY, SEVERAL DYNAMIC, MIDDLE-RANKING
BUREAUCRATS IN THE MINISTRIES OF INDUSTRY AND FINANCE
BELIEVE THE RTG CAN PUT PRESSURE ON THE OIL COMPANIES
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WITH REGARD TO PRICE BY POSTPONING A DECISION ON THE
MATTER UNTIL THE RELINQUISHMENT-RENEWAL DEADLINE DRAWS
NEAR. THE TEMPTATION TO USE SUCH LEVERAGE IS, OF COURSE,
ALMOST IRRESISTIBLE, BUT WE WOULD HOPE THAT MR. KASEM
CHATIKAWANIT, THE NEW MINISTER OF INDUSTRY WHO IS ONE
OF THE ABLEST ADMINISTRATORS IN THE COUNTRY, WILL ADOPT
A MORE CONSTRUCTIVE STANCE IN UPCOMING PRICE NEGOTIATIONS
WITH THE COMPANIES. WE HAVE LIMITED ABILITY TO INFLUENCE
DEVELOPMENTS, BUT AMBASSADOR AND EMBOFFS WILL CONTINUE
TO LOBBY WITH, AND ON BEHALF OF, U.S. FIRMS AT APPRO-
PRIATE LEVELS.

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